Volume 12
Issue 3 *Summer 2006*

Article 4

July 2015

Can South America Pick Up the Soybean Slack?

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The astounding ramp-up in U.S. ethanol production means that acreage planted to corn in the United States will significantly increase over the next five years. The number one source of additional corn acres will be converted soybean acres. Other sources will be converted pasture, land taken out of the Conservation Reserve Program, and land taken out of other crops, primarily wheat. Chad Hart shows elsewhere in this issue that the market is already signaling farmers to convert soybean acres to corn acres. Decreased U.S. soybean acres means increased demand for substitutes for U.S. soybeans, which include soybeans from other countries and other oilseeds from the United States and elsewhere.

By far the largest supplier of substitutes for U.S. soybeans is South American soybean production. But South America production is seemingly less predictable now than it used to be. Figure 1 shows that the average yield in Argentina and Brazil in the last three years has been well below peak levels in 2000 and 2002. Drought, Asian soybean rust, and a slowdown in conversion of virgin lands have all worked to slow down yield growth. What is perhaps more surprising is that the number of hectares harvested in these two countries actually fell this year after showing a smaller-than-normal increase last year. Again, the impact of drought, as well as increased production costs and relatively weak prices, is showing up in decreased harvested land.

The common assumption is that as more U.S. land is devoted to corn to produce ethanol, South America will continue to ramp up production to meet increased world demand for oilseeds. As shown in Figure 2, together, Brazil and Argentina have already surpassed the United States in soybean production. South America will need to continue to increase production significantly to offset declines in the United States as well as to meet projected growth in world demand for oilseeds.

World soybean prices are likely to increase as U.S. acreage declines. This increase in price will induce more production in South America. The responsiveness of South American soybean production to this price increase will determine how quickly the United States will shift to corn. Livestock feeders and consumers of corn and oilseeds worldwide have a large stake in seeing South America get back to its historical path of production growth. ◆

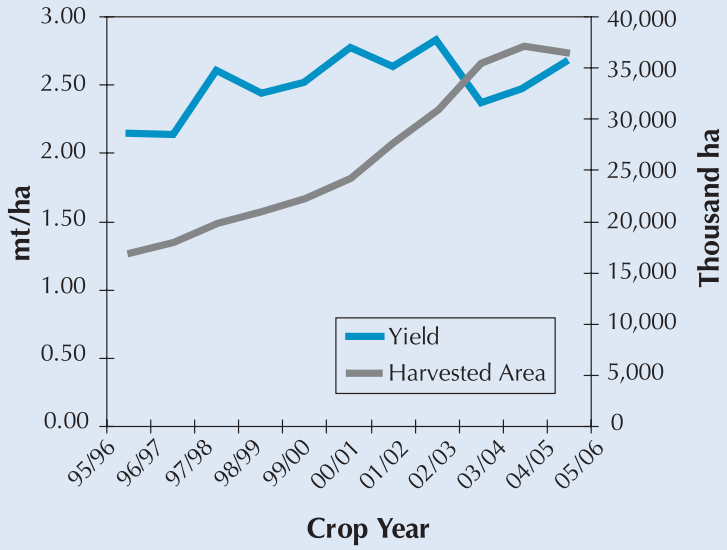

Figure 1. Soybean yields and harvested area in South America

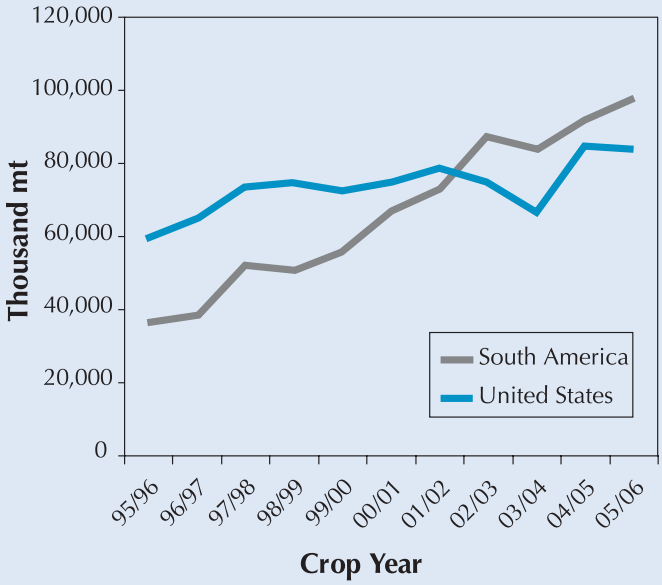

Figure 2. Soybean production in South America and the United States